

Weekly Economic Update

6th February 2011

Summary
PAGE 1

Economy
UK economy
Consumer lending
House prices
PAGE 1

Commodities
Exchange rates
PAGE 2

Construction
Construction activity
Building material prices
PAGE 2

Looking ahead
PAGE 2

Market Watch
PAGE 3

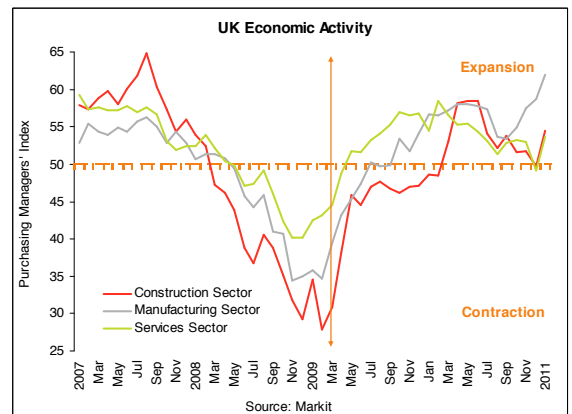
Summary

Latest survey evidence shows a rebound in UK activity in January, raising expectations that the economy will return to growth in the first quarter of 2011, having posted a surprise 0.5% decline in the final quarter of last year. With the latest data also pointing to a rise in inflationary pressures, discussion about the possibility of an early hike in interest rates will continue.

Economy

UK economy

Survey evidence suggests that the UK economy got off to a good start to the year, raising hopes that it will return to expansion near term, having seen a decline in the final quarter of 2010. Manufacturing activity continues to rise firmly, with the manufacturing PMI increasing to 62 in January, up from 58.7 in December. Output, new orders and employment expanded, driven in particular by strong overseas demand. However, cost pressures are also rising, due to global commodity price increases in particular chemicals, energy, food products, metals, packaging, paper and timber. Higher input prices are being passed down the supply-chain in the form of higher factory gate prices. Services sector activity improved modestly in January, with the Markit/CIPS PMI climbing to 54.5, up from 49.7 in December. However, services providers appear nervous about their future, cutting employment again in January. The survey also shows that prices charged for services are rising at the fastest rate since mid-2008, as firms seek to pass on rising costs and higher VAT.

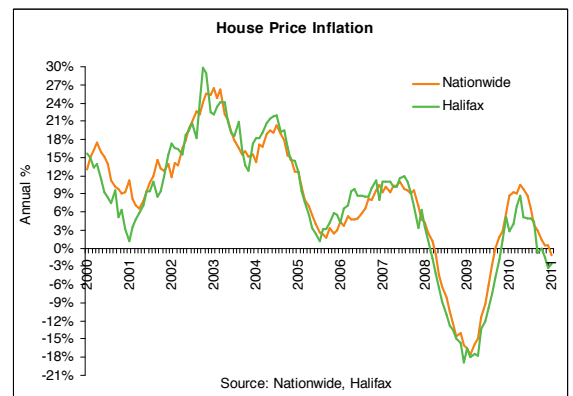


Consumer lending

The UK housing market ended 2010 on a subdued note. Mortgage approvals totalled 42,600 in December, falling for an 8th consecutive month to their lowest level since early 2009. Approvals remain at half their 10-year average. Consumer credit rose slightly in December, following a net repayment the month earlier. However consumer credit remains very low compared to past norms, as households' appetite for new borrowing is limited and availability of unsecured credit from banks remains tight.

House prices

The Nationwide reported that house prices fell 0.1% in January, with prices down 1.1% year-on-year. In contrast, the Halifax saw house prices rise 0.8% in January, though this did not reverse a larger fall in the preceding month, so that the annual rate of house price



decline accelerated to 2.4%, from a 1.6% fall in December.

Commodities

Commodities continued their upward trend last week, amid strong demand and supply worries. Oil prices topped the \$100 a barrel mark for the first time since 2008 on concerns that unrest in Egypt would affect oil flows from the Middle East. Furthermore, copper breached the \$10,000 a tonne-mark briefly for the first time, before settling at \$9,986/ton on Friday. The global steel price index rose 5% last week.

Commodity Prices (4th Feb 2011)				
	Price	Weekly change	Monthly change	Annual change
"Brent" Oil (\$/ barrel)	100.0	1%	5%	40%
Copper (\$/tonne)	9,986	4%	2%	52%
Aluminium (\$/tonne)	2,523	3%	2%	23%
Nickel (\$/tonne)	28,075	5%	12%	54%
Global Steel Price (Index 04/1994=100)	210.0	5%	12%	26%

Source: FT, LME, Cruspi

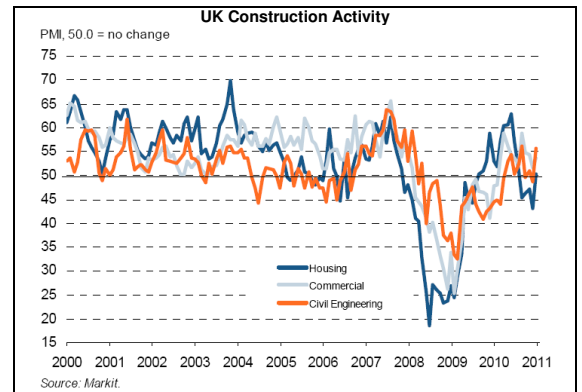
Exchange rates

The Sterling rose to a three-month high against the Dollar last week to £/€1.6059, on expectations that the Bank of England will raise interest rates early to stem inflationary pressures. The Pound also strengthened against the Euro, rising 2% to £/€1.1848.

Construction

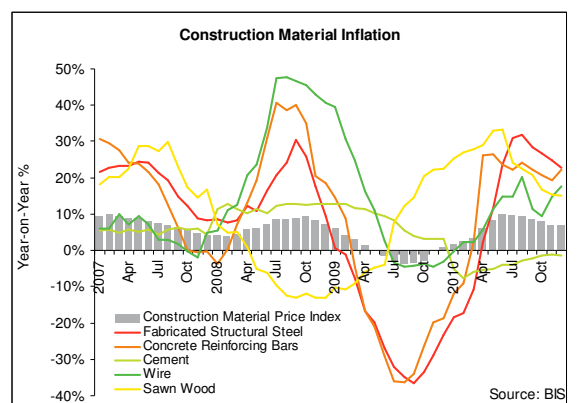
Construction activity

Following a weak December, construction activity expanded moderately in January, according to the latest Markit/CIPS construction PMI. The index rose to 53.7, up from 49.1 in December, helped by better weather conditions and higher new orders. Commercial activity remains the best performing sector, while civil engineering increased modestly. House building stagnated. However, employment fell again and sub-contractor usage declined, indicating that the sector is preparing for lower workload ahead. Rates charged by sub-contractors also fell. At the same time, the survey shows that input costs faced by construction companies continue to rise sharply, driven up by higher raw material prices.



Building material prices

Construction material prices were relatively unchanged in December compared to a month earlier, with the annual rate of inflation for All Works remaining at 6.8%. Fabricated structural steel prices fell 2% in December, but were 23% up on a year ago. Concrete reinforcing bars rose 2% during the month and up 22% year-on-year. Pre-cast concrete held relatively stable both compared to the preceding month and a year ago. Wire rose 3% in December and up 18% on a year ago, due to higher copper prices. Sawn wood was unchanged in December, but remained 15% up on the preceding year.



Looking ahead

The main event in the UK this week will be the Bank of England's MPC February meeting. Whilst inflationary pressures have certainly increased, the growth outlook remains uncertain, so that it is expected that the MPC will keep interest rates on hold. The latest manufacturing data are expected to show that sector growth remains firm, with manufacturers benefiting from strong overseas demand. Producer input prices are set to have increased sharply in January, driven up by oil, commodity and food prices. This is likely to have maintained pressure on manufacturers to seek higher factory gate prices in order to maintain their profit margins.

Market Watch

The UK's FTSE 100 index posted a 2% gain last week, rising to 5,997.4 on Friday.

The real estate index underperformed the wider market, but still posted a 0.5% increase. Within the sector, Segro hit a nine-month high, rising 5.4% last week, amid speculation that the property group could be a takeover target (Source: FT).

Other construction stocks gained on the back of improved data. Among building contractors, the Kier Group performed best, rising 5.3% last week. Balfour Beatty was up 1.8% and Carillion 1.2%. In contrast, most material suppliers fell, with the exception of Wolseley.

Housebuilders rose after Halifax unexpectedly reported that house prices increased by 0.8% in January. Bovis Homes and Bellway both gained 5%, while Persimmon rose 4.6%. Taylor Wimpey was up 8.3% after ratings agency Fitch raised its long-term default rating to positive in response to the house builder's recent refinancing.

Stock Market		Friday 4th February 2011			
Index	Index	Week	Month	Year	
FTSE100	5,997.4	▲ 2.0%	-0.3%	16.7%	
EPRA/NAREIT UK	390.0	▲ 0.5%	-0.1%	10.0%	
Stocks	Market Cap, £m	Share Prices			
		Week	Month	Year	
Real Estate					
British Land	4,630	▲ 0.5%	-1.5%	17.0%	
Hammerson	3,070	▲ 0.6%	1.2%	11.7%	
Land Securities	5,290	▲ 1.3%	1.0%	6.7%	
Capital & Counties	909	▼ -0.7%	-1.4%		
Capital Shopping Centres	3,220	▲ 0.1%	-11.7%	-17.1%	
Shaftesbury	1,010	▲ 1.5%	-1.0%	16.5%	
Great Portland Est.	1,140	▲ 1.4%	1.0%	25.8%	
Derwent London	1,570	▲ 0.1%	-1.0%	14.8%	
Segro	2,350	▲ 5.4%	7.3%	0.9%	
Quintain Estates & Development	206	▼ -1.3%	-1.9%	-35.8%	
St. Modwen Properties	339	▼ -3.3%	-0.6%	-12.9%	
Unite Group	329	▲ 0.7%	2.5%	-29.6%	
Workspace Group	291	▼ -1.9%	9.8%	13.5%	
Minerva	158	▲ 3.2%	26.5%	26.1%	
Average*		▲ 1.0%	-0.6%	6.2%	
Building Contractors					
Balfour Beatty	2,340	▲ 1.8%	7.1%	27.0%	
Carillion	1,550	▲ 1.2%	0.3%	33.0%	
Morgan Sindall	302	▲ 0.0%	-0.5%	32.1%	
Kier Group	496	▲ 5.3%	-4.9%	40.7%	
Lend Lease Corp*	4,970	▼ -0.7%	2.2%	-2.6%	
Average		▲ 0.6%	2.7%	13.6%	
Building material suppliers					
Wolseley	6,280	▲ 1.4%	5.7%	58.8%	
SIG	800	▼ -5.8%	2.0%	18.2%	
Marshalls	227	▼ -3.4%	13.3%	31.4%	
Kingspan	0	▼ -1.0%	-11.5%	9.3%	
Average		▲ 0.5%	5.5%	53.5%	
Housebuilders					
Persimmon	1,270	▲ 4.6%	-2.2%	-4.5%	
Taylor Wimpey	1,200	▲ 8.3%	16.5%	-6.0%	
Barratt	907	▲ 2.2%	1.0%	-23.9%	
Bovis Homes	612	▲ 5.0%	7.6%	14.0%	
Bellway	773	▲ 5.0%	-6.5%	-15.9%	
Berkeley	1,230	▲ 4.0%	-0.3%	17.0%	
Average		▲ 4.9%	2.9%	-2.9%	

**Sector averages are weighted according to current market capitalisations